LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

301 State House
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FISCAL IMPACT STATEMENT

LS 6920 **DATE PREPARED:** Jan 14, 1999
BILL NUMBER: HB 1794 **BILL AMENDED:**

SUBJECT: Rural bank branch location incentive.

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FUNDS AFFECTED: X GENERAL
DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill provides a five year credit against financial institutions tax liability for a financial institution that establishes an office in a school district that: (1) does not contain a branch or principal office of a financial institution that carries on certain banking functions; and (2) has a population of less than 6,500. The credit is equal to the lesser of: (1) the taxpayer's financial institutions tax liability; or (2) $50,000 in the first year, $40,000 in the second year, $30,000 in the third year, $20,000 in the fourth year, and $10,000 in the fifth year.

Effective Date: January 1, 2000.

Explanation of State Expenditures: There will be some administrative costs to the Department of Revenue to change tax forms, instructions and computer programs to accommodate this new credit. These expenses will be covered under their existing budget.

Explanation of State Revenues: The bill provides a tax credit for a financial institution who establishes a branch office in a school district which has a population of less than 6,500 and currently does not contain a full service office of a financial institution. The bill defines a full service office. The tax credit is equal to the lesser of the following: the taxpayers tax liability or $50,000 for the first year, $40,000 for the second year, $30,000 for the third year, $20,000 for the fourth year and $10,000 for the fifth year. The tax credit may not be granted if the taxpayer substantially reduces or ceases the operation of a full service office somewhere else in Indiana in order to relocate to the applicable school district.

The tax credit is for tax years beginning January 1, 2000 and could result in a revenue loss beginning in FY 2001. Financial Institution Tax (FIT) revenue is deposited in the General Fund and local units of government receive a guaranteed distribution of this tax revenue. Any reduction of the FIT revenue would affect the amount distributed to the State General Fund only. In FY 98, the Financial Institution Tax generated $96 M in revenue.

According to the Department of Education Database and the 1990 census, there are 71 school districts (out of 294) that have census populations under 6,500. It is not known how many of these school districts do not have a full service financial institution or how many financial institutions may be encouraged to open new branch facilities in these districts. If one new branch facility was opened in an eligible district, there would be a revenue loss of $50,000 in the first year of the tax credit. If 10 new branch facilities were opened, there would be a loss of $500,000 in the first year and the credit would be reduced as noted above for the next four years.

Explanation of Local Expenditures:

Explanation of Local Revenues: If this tax incentive encourages new investment in a community which would have not otherwise occurred but for this incentive, the local community may see an increase in their assessed value of property and a subsequent reduction in their property tax rates.

State Agencies Affected: The Department of Revenue.

Local Agencies Affected:

Information Sources: The Department of Education.